

UNITED STATES DEPARTMENT OF STATE
BUREAU OF POLITICAL-MILITARY AFFAIRS
WASHINGTON, D.C. 20520

_____))
In the Matter of:)
)
EDO CORPORATION)
New York)
)
Respondent)
_____)

CONSENT AGREEMENT

WHEREAS, the Office of Defense Trade Controls Compliance, Directorate of Defense Trade Controls, Bureau of Political-Military Affairs, U.S. Department of State ("Department") has notified Respondent EDO Corporation ("EDO") of its intent to institute an administrative proceeding pursuant to the Arms Export Act (the "Act") (22 U.S.C. 2778 (e)) and its implementing regulations, the International Traffic in Arms Regulations ("Regulations") (22 CFR Parts 120-130), based on allegations of violations of Section 38 of the Act and Section 127 of the Regulations arising from activities of Condor Systems, Inc. ("Condor") prior to the acquisition of its business assets by EDO¹, as set forth in a draft Charging Letter attached hereto and incorporated by reference herein;

WHEREAS, Respondent wishes to avoid the expense and business disruption of litigating the charges and, without admitting or denying the allegations in the draft Charging Letter, wishes to dispose of all civil charges, penalties and sanctions arising from the draft Charging Letter by entering into this Consent Agreement;

¹ EDO purchased substantially all of the business assets of Condor in a bankruptcy proceeding under Section 363 of the United States Bankruptcy Code in July 2002. As set forth in the draft Charging Letter, allegations of violations by Condor are attributed to EDO based on the Department's determination that it is the successor to Condor under the ITAR. EDO is named as Respondent for the purpose of assessing civil liability and other remedies arising from Condor's violations as successor to Condor.

WHEREAS, Respondent has reviewed the draft Charging Letter and this Consent Agreement, fully understands these documents and enters into this Agreement voluntarily and with full knowledge of its rights;

WHEREAS, the Department and the Respondent agree to be bound by this Agreement and a related Administrative Order ("Order") attached hereto and to be entered and approved by the Assistant Secretary of State for Political-Military Affairs;

Now, WHEREFORE, the Department and Respondent agree as follows:

Parties

(1) The Parties to this Agreement are the Department and Respondent EDO, including all of EDO's operating divisions and subsidiaries and their assignees and successors to the extent they are subject to the Department's regulation under the Act and the Regulations.

Jurisdiction

(2) The Department has jurisdiction over EDO under the Act and the Regulations in connection with the matters identified in the draft Charging Letter.

Penalty

(3) Respondent agrees that it shall pay in fines and remedial compliance measures a civil penalty in the amount of \$2,500,000 (two and one-half million dollars) in complete settlement of the alleged civil violations as set forth in the draft Charging Letter. Respondent agrees that the effect of any statutory limitation to the collection of the civil penalty imposed by this Agreement be tolled until the last payment is made. The civil penalty shall consist of cash and suspended portions payable as follows:

(A) A penalty of \$1,750,000 (one million seven hundred fifty thousand dollars) is hereby assessed of which \$583,334 (five hundred eighty-three thousand three hundred thirty-four dollars) shall be paid within ten (10) days of the signing of the Order and the balance in two annual installments due on the anniversary date of the signing of the Order, in the amount of \$583,333 each.

(B) A penalty of \$750,000 (seven hundred fifty thousand dollars) is hereby assessed, but \$575,000 (five hundred seventy-five thousand dollars) shall be suspended on condition

that Respondent will apply funds in this amount over the three (3) year period of this Consent Agreement for the purpose of defraying a portion of the costs associated with the remedial compliance specified herein and in the Annex of Compliance Measures attached hereto and incorporated by reference herein, including costs associated with the Special Compliance Official and the implementation of that official's recommendations, and a credit of \$175,000 (one hundred seventy-five thousand dollars) shall be counted toward the \$750,000 in recognition of the amount already invested in strengthened compliance measures that have been identified by the Respondent to the Department.

Respondent shall provide annually to the Department on the anniversary of the date of the Order a written accounting of the expenditures associated with this suspended penalty. The accounting shall be accompanied by the recommendation of the Special Compliance Official whether the expenditures meet the requirements of paragraph (B) and shall include a separate accounting by the SCO of expenses incurred under paragraph 4(F) of the Annex of Compliance Measures.

Respondent is precluded from applying the amounts expended for remedial compliance programs under this paragraph as costs in any contract with any agency of the U.S. Government or any other contract. In the event Respondent violates this prohibition, the Department will deem it a "failure to apply funds appropriately for the required purposes."

Any failure to apply funds appropriately for the required purposes or to provide a satisfactory accounting shall result in lifting of the suspension, in which case Respondent shall pay immediately to the Department the amount of the suspended portion of the penalty, less credits for amounts the Department deems to be properly applied and accounted for expenditures in compliance with this Agreement.

Debarment and Policy of Denial

(4) The Department has determined that a prospective debarment of Respondent is not appropriate at this time in view of Respondent's acknowledgement of the seriousness of the violations alleged in the draft Charging Letter, its expression of regret for not having been more diligent in communicating with the Department regarding those matters, its efforts to date to strengthen compliance measures, and its agreement to take additional, significant remedial actions, including efforts to improve its overall corporate compliance program as specified herein. For the same reasons, the Department has further determined to terminate its policy of denying applications for licenses and other approvals involving proposed exports from the former Condor business assets acquired by Respondent; termination will become effective upon payment of the portion of the civil penalty due within ten (10) days of the signing of the Order. At that time, the Department will resume normal processing of all applications for export licenses by Respondent on behalf of all of its operating divisions and subsidiaries. The Department

reserves the right to consider imposing additional sanctions, including debarment under the Regulations, against Respondent or any subsidiary or other business unit, if it does not fulfill the provisions of this Consent Agreement or is responsible for other compliance or law enforcement concerns under the Act or other statutes specified in Section 120.27 of the Regulations.

Appointment of a Special Compliance Official and Compliance Measures

(5) Respondent shall appoint a Special Compliance Official for a period of three (3) years, the position to be filled during the first year by a qualified professional who has had no past nor will have any future relationship to Condor or the Respondent or any of their subsidiaries or other business units or affiliates. Respondent shall also implement the other requirements, including certain independent and internal audits, strengthened compliance policies, procedures, and training, law department oversight, and hotline for reporting possible violations, as set forth in the Annex of Compliance Measures attached to this Consent Agreement. In this connection, Respondent acknowledges the need to include export compliance in its due diligence reviews in its merger or acquisition activities and to ensure that all new employees involved in AECA/ITAR-regulated activities hired as a result of such acquisition are trained and instructed regarding the requirements of the Act and the Regulations and Respondent's compliance policies and procedures.

On-Site Audits by the Department

(6) For the purpose of assessing compliance with the provisions of the Act, the Regulations and future munitions licenses and authorizations, Respondent agrees to arrange and facilitate, with minimum advance notice, on-site audits of their business units, wherever situated, by the Department for three (3) years commencing on the signing of the Order.

Understandings

(7) No agreement, understanding, representation or interpretation not contained in this Agreement may be used to vary or otherwise affect the terms of this Agreement or the Order, when entered, nor shall this Agreement serve to bind, constrain, or otherwise limit any action by any other agency or department of the United States Government with respect to the facts and circumstances addressed herein, except as otherwise noted. Respondent acknowledges and accepts that there is no understanding expressed or implied through this Agreement with respect to any decision by the Department of State concerning its interest in the approval of export licenses or other U.S. Government authorizations necessary to past, pending or future munitions license applications. The

Department agrees, assuming Respondent's adherence to the terms of this Agreement, that decisions concerning future export license applications for the Respondent will be made on the basis of the security and foreign policy interests of the United States and without reference to the facts alleged in the draft Charging Letter and the Department's previously expressed concerns regarding Respondent's reliability, which concerns are considered to be appropriately mitigated through the faithful operation of this Agreement.

(8) The Department and Respondent agree that this Agreement is for settlement purposes only. For purposes of this Agreement, the Respondent neither admits nor denies the allegations in the draft Charging Letter, including the Department's determination that Respondent is a successor to Condor. Respondent reserves its right to raise all defenses to any claims based on such successor status that may be made by any person in any other proceeding that may be brought against Respondent. Respondent acknowledges the nature and seriousness of the offenses alleged by the Department in the draft Charging Letter, including the risk of harm to the security and foreign policy interests of the United States, and wishes to resolve this matter by undertaking the obligations set forth in this Consent Agreement, including payment of a cash penalty and establishment of an effective corporate compliance program that will prevent any future actions such as those addressed in the draft Charging Letter. If this Consent Agreement is not approved pursuant to an Order entered into by the Assistant Secretary for Political-Military Affairs, the Department and Respondent agree that they may not use this Agreement in any administrative or judicial proceeding and that neither party shall be bound by the settlement terms contained in this Agreement in any subsequent administrative or judicial proceeding.

(9) The Department agrees that, upon signing of the Order and entry into force of this Agreement, this Agreement resolves with respect to the Respondent any civil penalties or sanctions imposed with respect to violations of Section 38 of the Act or the Regulations alleged in the draft Charging Letter or arising from facts that have been identified in the draft Charging Letter.

Waiver

(10) Respondent agrees that, upon signing of the Order and entry into force of this Consent Agreement, it waives all rights to any further procedural steps in this matter, including an administrative hearing pursuant to Part 128 of the Regulations (except with respect to any alleged violations of this Consent Agreement or Order). Respondent also waives all rights to seek administrative or judicial review or to otherwise contest the validity of this Consent Agreement or the Order, including any action that may be brought for the enforcement of any civil fine, penalty or forfeiture in connection with this Consent Agreement or Order.

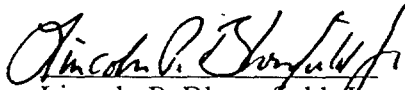
Documents to be Made Public

(11) Respondent understands that the Department will make this Agreement, including the Annexes of Compliance Measures, the draft Charging Letter, and the Order, when entered, available to the public.

When Order Becomes Effective

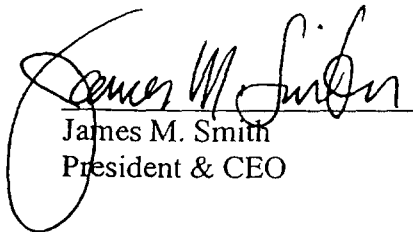
(15) This Consent Agreement shall become binding on the Department only when the Assistant Secretary for Political-Military Affairs approves it by entering the Order, which will have the same force and effect as a decision and Order issued after full administrative hearing on the record.

U.S. Department of State

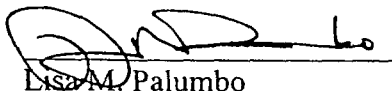

Lincoln P. Bloomfield, Jr.
Assistant Secretary for
Political-Military Affairs

November 24, 2003
Date

EDO Corporation


James M. Smith
President & CEO

November 11, 2003
Date


Lisa M. Palumbo
Vice President & General Counsel

November 11, 2003
Date

ANNEX OF COMPLIANCE MEASURES

EDO, reflecting its commitment to conduct its business in full compliance with the Arms Export Control Act ("Act" or "AECA") and the International Traffic in Arms Regulations ("Regulations" or "ITAR"), and in order to ensure, in particular, that there is no unauthorized export of defense articles (including technical data) or provision of defense services (including any technical assistance whatsoever) to any foreign person, agrees to implement the following remedial measures and such additional measures as may be mutually agreed upon by EDO, the Special Compliance Official and the Director, Office of Defense Trade Controls Compliance ("DTCC"). These measures apply for a period of three (3) years, except where otherwise noted.

Appointment of a Special Compliance Official (SCO)

(1) EDO's President and Chief Executive Officer ("CEO") shall, with the concurrence of the Director, DTCC, appoint a qualified individual from outside the corporation to serve as a Special Compliance Official (SCO) for an initial term of one (1) year, to be succeeded by an individual from inside the corporation who will serve for an additional two (2) years, in both instances reporting to EDO's Vice President and General Counsel, and Board of Directors, and the Director, DTCC as set forth herein.

(2) The outside SCO shall not have been employed in any prior capacity by or previously represented EDO, Condor Systems, Inc., or any subsidiaries or affiliates of EDO, past or present, and shall agree to forsake for all time as a condition of this employment any such future employment or representation. The appointment shall be made within thirty (30) days of the signing of the accompanying Order and, unless agreed to by the parties to this settlement prior to or at the time of settlement, the appointment shall be subject to the written approval of the Director, DTCC.

(3) The SCO shall have three principal areas of responsibility regarding the future conduct of EDO:

- (a) Strengthening the export compliance program of EDO, with primary attention to enhancing corporate oversight and compliance infrastructure of those business units associated with the violations alleged in the draft Charging Letter, particularly EDO Reconnaissance and Surveillance Systems, Inc. ("RSS"), and to improve written policies and procedures for AECA/ITAR-regulated activities carried out by all of EDO's business units;

- (b) Overseeing the audit referred to in paragraph 8 below and ensuring that that EDO performs its responsibilities in a timely and satisfactory manner as required by this Agreement and the accompanying Order; and
- (c) Monitoring all AECA/ITAR-regulated activities of EDO for the period covered by this Consent Agreement.

With respect to its other business units, EDO also acknowledges and accepts its obligation to ensure that those operations have and will continue to maintain effective export control oversight, infrastructure and procedures, and also to ensure appropriate coordination between and among EDO's Director, International Programs and Vice President and General Counsel and the SCO such that its other business operations may benefit from enhanced compliance measures once introduced.

The SCO may also be requested to perform additional export oversight, monitoring and coordination activities as agreed by the CEO, EDO, and the Director, DTCC.

In fulfilling the responsibilities set forth in this Consent Agreement, the SCO may at his/her sole discretion present any disagreement with EDO's employees or management involved in export regulated activities directly to any or all of the Vice President and General Counsel, the President and CEO, the Board of Directors or the Director, DTCC. EDO's Vice President and General Counsel may participate in such discussions initiated by the SCO with EDO's Board of Directors at the SCO's or the Board's discretion.

- (4) EDO's Board of Directors shall consent to the following terms and conditions regarding the power, duties, authorities, and responsibilities of the SCO and receive reports on SCO findings and recommendations:

(A) The SCO shall have the power and authority to monitor EDO's compliance with the terms of this Consent Agreement and accompanying Order and shall exercise such power and authority and carry out the duties and responsibilities of the SCO as set forth herein in a manner consistent with this Consent Agreement, the accompanying Order, the specific terms and conditions of munitions licenses and other authorizations within the scope of paragraph 3 above, provided to EDO by the Department of State and other activities subject to the Regulations and the Act, and shall do so in consultation with the Office of DTCC.

(B) Within fifteen (15) days of the appointment of the SCO, EDO shall confer on this individual all rights and powers necessary to permit then SCO to monitor, oversee and promote EDO's compliance with the terms of this Agreement in a manner consistent with the purposes of this Agreement and the Order, and the specific terms and conditions of pertinent (i.e., covered by paragraph 3 above) munitions license authorizations and other activities subject to the Act and the Regulations. Such rights and powers shall be

conferred in writing; they shall be made known in writing throughout EDO's business units; and a certified copy of the resolution of the Board of Directors shall be deposited with the Office of DTCC by the forty-sixth (46th) day after the signing of the Order.

(C) The outside SCO shall serve for a one (1) year period from the date of his or her appointment. If for any reason the appointed SCO is unable to serve the full period of his/her appointment, EDO's President and CEO may recommend a successor acceptable to the Director, DTCC, the latter's agreement to the replacement to be confirmed and provided in writing. Such a recommendation shall be made at least thirty (30) days in advance of a new appointment. If the SCO for any reason is unable to carry out the responsibilities described herein on a temporary basis (i.e., not to exceed thirty (30) days), then EDO's Vice President and General Counsel shall assume the power and authority of SCO in the interim. The conferring of rights and powers described in subparagraph (B) above shall make provision for this event. Within nine (9) months of appointment, the SCO, after consultations with EDO's Vice President and General Counsel, and the President and CEO, shall recommend a successor SCO acceptable to EDO and the Director, DTCC, who shall serve for the remaining two (2) year period, the latter's agreement to the replacement to be confirmed and provided in writing. The successor SCO shall be an employee of EDO and fully empowered and capable of performing the responsibilities of the SCO, including all authorities applicable to the outside SCO.

(D) The SCO shall have full and complete access to EDO's personnel, books, records, documents, facilities and technical information relating to compliance with this Consent Agreement, Order, including pertinent munitions authorizations, licenses, guidance and the like relating to the export of defense articles and defense services associated with EDO's business.

(E) EDO shall cooperate with any reasonable request of the SCO, including any request for assistance to obtain any necessary security clearances, and shall take no action to interfere with or impede the SCO's ability to monitor EDO's compliance with this Agreement, the Act and the Regulations or to carry out his/her other responsibilities set forth in this Agreement.

(F) The SCO, with EDO's consent, which shall not be unreasonably withheld, shall have the authority to employ, at the expense of EDO, such assistants and other professional staff as are reasonably necessary to carry out the SCO's duties and responsibilities in connection with this Consent Agreement and Order. Such expenses, including salaries and expenses of the SCO, may be paid for from the suspended civil penalty described in paragraph 3(B) of the Consent Agreement.

(G) The Office of DTCC may, on its own initiative or at the request of the SCO, issue such guidance as may be necessary or appropriate to ensure compliance with the Act and the Regulations and the terms and conditions of licenses and other authorizations DTCC has provided to EDO. Upon a showing of good cause by the SCO and EDO's CEO, the Director of DTCC may grant an extension of time to ensure full implementation of the compliance measures specified herein. The SCO and EDO's President and CEO may request relief from other provisions of the Consent Agreement by submitting such a request, including justification and supporting documentation, to the Director, DTCC.

(H) The SCO shall provide reports to EDO's Export Compliance Council, Vice President and General Counsel, and President and CEO, and Board of Directors, as well as to the Director, DTCC, concerning EDO's compliance with this Agreement and Order, including pertinent (i.e., covered by paragraph 3 above) U.S. Government munitions licenses, authorizations, guidance and the like then in force pertaining to EDO's activities regulated by the Act and the Regulations. These reports shall include conclusions and any recommendations necessary to ensure compliance with the Act and Regulations; state whether the SCO has encountered any difficulties in exercising the duties and responsibilities assigned herein; describe any and all instances of non-compliance without waiving EDO's ability to submit voluntary disclosures; and advise on progress in implementing previous recommendations advanced by the SCO. These reports may, in a separate annex, also include any relevant comments or input by EDO's Vice President and General Counsel. The reports shall be provided:

- Every sixty (60) days for a period of six months from the date of the signing of the Order; and
- Every ninety (90) days thereafter during the remainder of the SCO's period of appointment.

Strengthened Compliance Policies, Procedures, Training

(5) Within 120 days of the signing of the Order, EDO shall have reviewed and instituted strengthened export compliance policies, procedures and training focused primarily on EDO RSS, while applying them to all EDO activities regulated by the Act and ITAR to ensure effective overall compliance. Such policies and procedure shall include measures designed to identify and resolve at the earliest practicable time potential AECA/ITAR compliance issues in businesses that EDO has recently acquired and proposes to acquire in the future. EDO shall ensure that by such 120th day:

(a) All employees involved in AECA/ITAR-regulated activities of EDO are familiar with the AECA and ITAR, EDO's export control policies and procedures and their and EDO's responsibilities under the AECA/ITAR;

(b) All persons responsible for supervising those employees and all officers and other senior managers of EDO, including at the corporate level, are knowledgeable about the

underlying policies and principles of the AECA and the ITAR and EDO's policies and procedures;

(c) There are records maintained of the names of the employees and other personnel trained, the trainers, and area of training received (e.g., applicability of the ITAR to marketing of defense articles, determination of what is technical data and a defense service, applicability of the ITAR to foreign-origin defense articles and to the use of public domain information in performing defense services, and handling of U.S. and foreign government classified technical data), and copies of training materials used.

Law Department Oversight

(6) Within thirty (30) days of signing the Order, EDO shall establish measures such that the Vice President and General Counsel will provide oversight and support to EDO and its business units for all matters involving the Act and Regulations. This oversight will also be structured to achieve consistent application of the Act and Regulations by all EDO business units. Toward this end, the Vice President and General Counsel shall consider and implement those improvements in EDO's compliance program recommended by the Special Compliance Official which have applicability to EDO business units other than the ones within which the SCO's responsibilities are principally focused.

In addition, EDO's Vice President and General Counsel shall take action to provide, appropriate legal support and oversight to the principal personnel responsible for compliance with the Act and Regulations in each EDO business unit involved in AECA/ITAR-regulated activities. The SCO and the Vice President and General Counsel shall also have the opportunity for input in performance reviews of the appropriate personnel responsible for compliance with the Act and Regulations.

Hotline for AECA and ITAR

(7) Within thirty (30) days of the signing of the Order, EDO will publicize the availability of its Ethics Hotline for reporting violations of the AECA and the ITAR to ensure that violations may be readily reported via this channel, without fear of recrimination or retaliation. Hotline calls about export matters will be directed to the SCO and the Vice President and General Counsel, the latter will be responsible for responding to such calls. The SCO shall prepare a quarterly report assessing the effectiveness of the hotline system. A copy of the report shall be provided to the Vice President and General Counsel and to the Director, DTCC. This written report will contain sufficient detail such that the Department may, consistent with its responsibilities under the law and regulations, form an opinion about the seriousness of the alleged violations, without disclosing employee confidentiality.

Audit

(8) As soon as possible after the appointment of the SCO, EDO shall initiate and complete within 120 days of such appointment an independent audit of the export compliance programs and activities at EDO RSS. The audit shall include an assessment of the effectiveness of compliance measures undertaken by EDO to address the problems illustrated in the draft Charging Letter. The audit shall be conducted by or under the overall supervision of the SCO with such assistance as the SCO determines to be reasonably necessary pursuant to paragraph 4(F) above. The audit plan shall be submitted to the Director, DTCC for review and approval prior to the start of the audit. A written report of the audit containing the findings, conclusions and recommendations, shall be submitted to the SCO, President and CEO and Vice President and General Counsel, EDO's Export Compliance Council and the Director, DTCC. Recommended compliance program improvements identified in the audit report shall be incorporated in EDO's compliance policies, procedures and training (see paragraph 5 above).

Other

(9) EDO's costs associated with increasing in-house export control personnel associated with additional export compliance enhancements, as required, including auditor(s) and attorney(s), EDO's export compliance manual, internal web site, and other export control compliance procedures and documents, as well as consultants and experts from outside EDO to support the above described activities may be counted toward the penalty imposed and suspended under paragraph 3(B) of the Consent Agreement.

Certifications

(10) At the conclusion of the three (3) year term of this Consent Agreement, the President and CEO of EDO and the SCO shall each submit to the Director of DTCC a written certification that all aspects of the Consent Agreement have been implemented and that they have assessed its current compliance program and attest that it is adequate to prevent and identify violations of the AECA and the ITAR.